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## Employment in the service sector in the era of austerity: Is deregulation inevitable?

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## Structure of Presentation

- 1. The argument for deregulation of services**
- 2. Alternative explanations for the growth of services**
- 3. The importance of inclusive wage systems**

## 1.1 The cost disease of services (Baumol 1967)

- **Services are resistant to rationalization**
- **Services are labour intensive**
- **If wages increase with same rates as in other sectors the prices will increase**
- **Demand is price-sensitive and will decline**
- **Employment in services will not or not sufficiently increase**

## 1.2 The cost disease of services (Baumol 1967)

### ***Conclusion of Baumol:***

- **Financial crisis of the cities with their high shares of labour intensive services**

***Neo-liberal conclusion*** – expansion of services only with a low wage sector. Therefore

- **low or no MW**
- **no multi-employer collective bargaining**

## 2.1 Alternative explanations for the growth of services

### **Services highly differentiated**

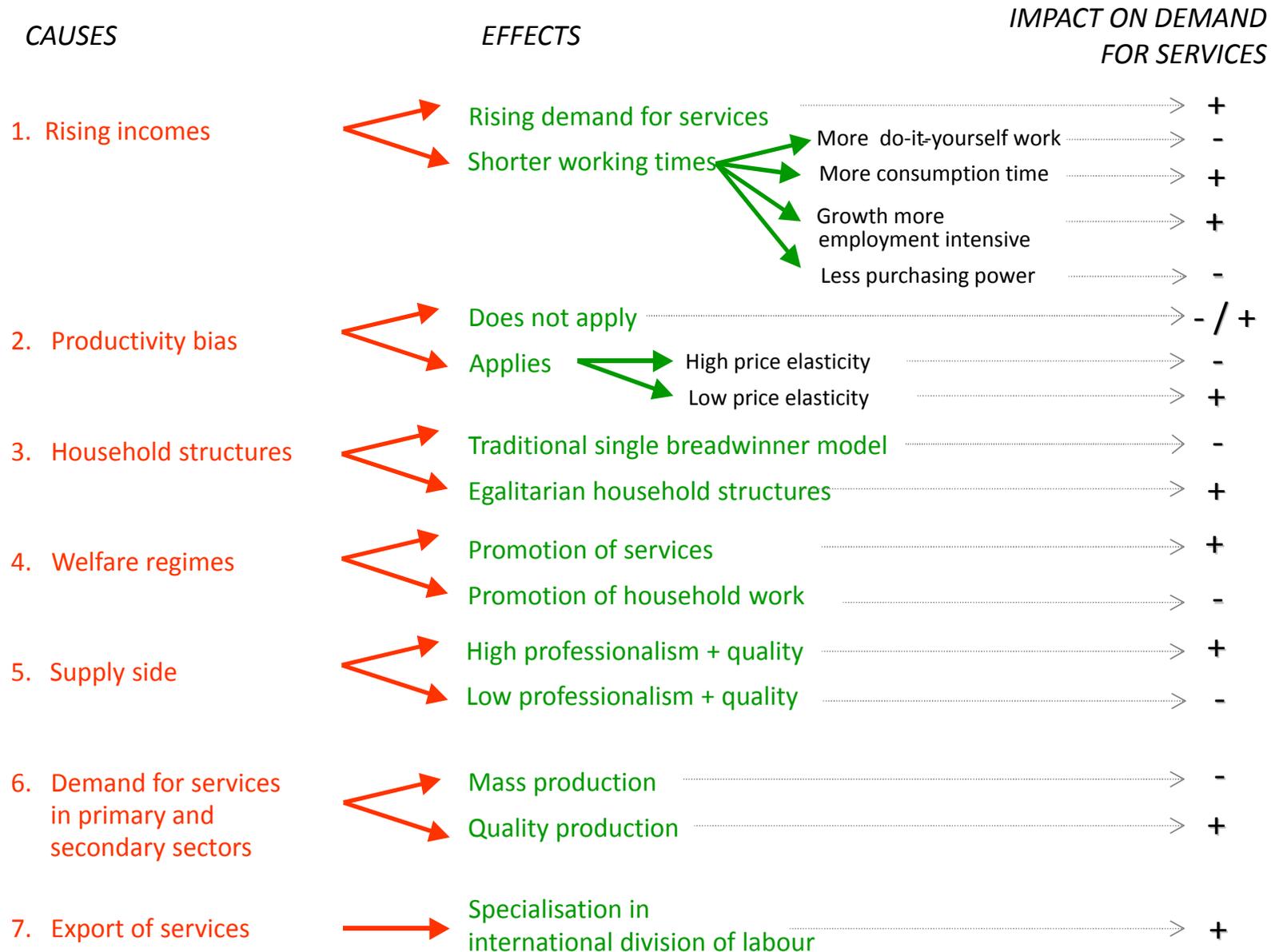
- low vs. high productivity / low vs. high capital intensity / consumption vs. investment**

**Many services are investments in „human capital“ (like education and training, health, occupational safety)**

**Free access - crucial for equal chances, social cohesion and future economic growth in the knowledge society**

**Different service theories – identified different growth factors**

## 2.2 Alternative theoretical explanations for the expansion of the service sector



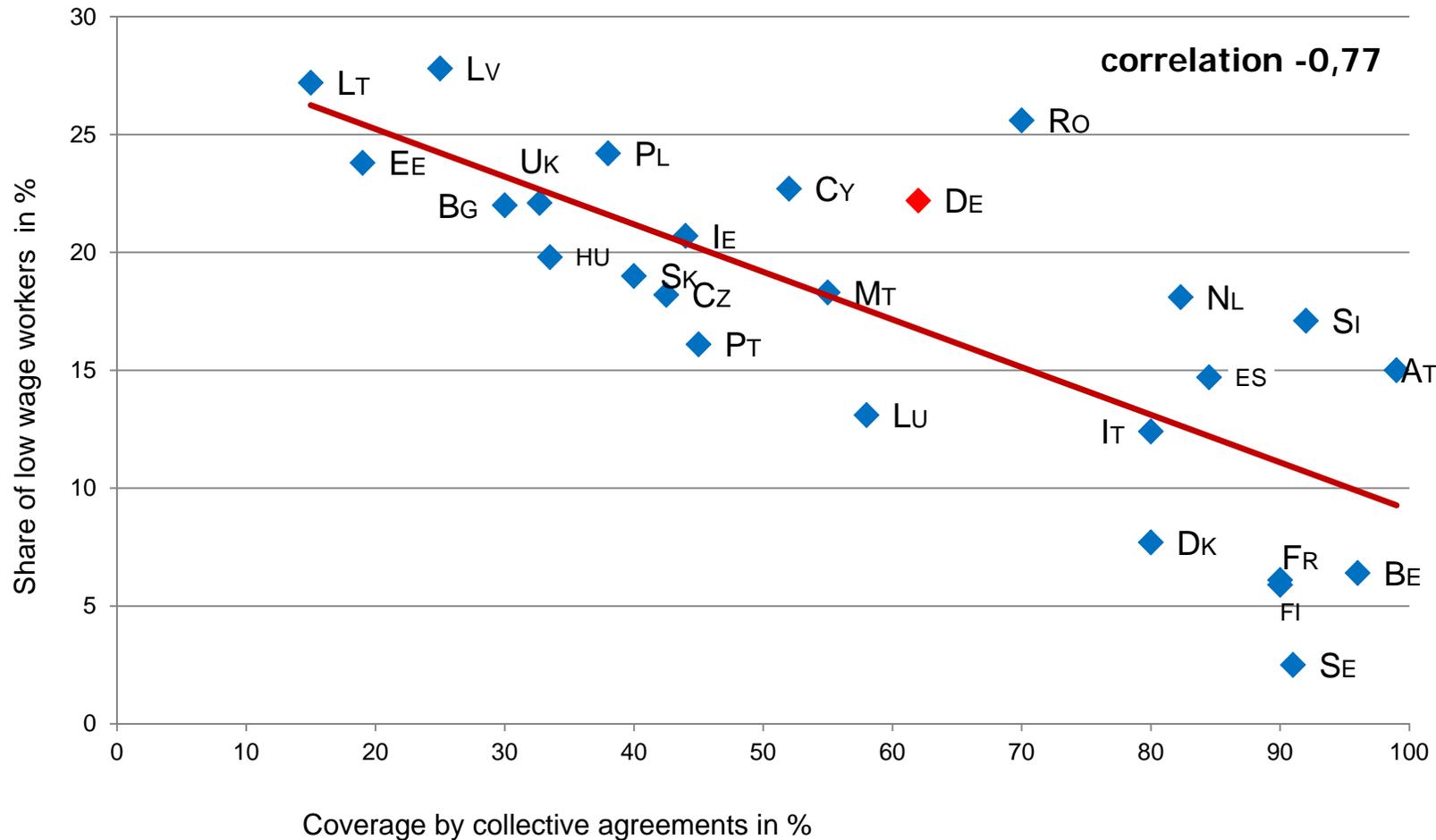
## 3.1 The importance of inclusive wage systems

**Countries with low wage inequality – like FR or SE  
above average shares of services**

**Share of services in employment 2012:**

<b>EU 27</b>	<b>72,2% (M 61,4% / W 84,6%)</b>
<b>BG</b>	<b>54,8% (M 64,4% / W 65,0%)</b>
<b>DE</b>	<b>73,7% (M 62,2% / W 86,7%)</b>
<b>FR</b>	<b>78,6% (M 68,1% / W 89,6%)</b>
<b>IT</b>	<b>70,1% (M 59,7% / W 84,5%)</b>
<b>SE</b>	<b>76,7% (M 64,4% / W 90,5%)</b>

## 3.2 Coverage by collective agreements (2008) and low wage share (2010)



## 4.1 Conclusions

- 1. Services do not automatically grow with economic growth.**
- 2. There might co-exist different service economies due to different family and production models.**
- 3. The Service Sector is heterogeneous – different drivers for different sub sectors.**
- 4. In a knowledge society in which social services are crucial for the formation of human capital, cuts in the welfare state and increasing income inequality will reduce future economic growth.**

## 4.2 Conclusions

**Major drivers for the expansion of services in EU-Europe:**

- **Economic growth and investment in human capital**
- **Mitigating the cost-disease for labor intensive social services through the state**
- **Modernizing household structures and the welfare state (integration of women into the labour market)**
- **Transition from mass to quality production**
- **Improving the quality of services by new technologies, quality assurance, professionalisation**
- **New working time models**

**Bosch, Gerhard / Lehndorff, Steffen (eds.), 2005**

**Working in the service sector:  
a tale from different worlds.**

**London: Routledge.**